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September 30, 2002

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Suite TW-A325
Washington, D.C. 20554

EX PARTE OR LATE FILED

Re: *Ex Parte* Presentation – re: Public Meeting on Proposals to Reform the Commission's Universal Service Contribution Methodology, CC Dkt. Nos. 96-45, 98-171, 90-571, 92-237, NSD File No. L-00-72; and CC Dkt. Nos. 99-200, 95-116, 98-170.

Dear Ms. Dortch,

On September 19, 2002, representatives of The Ad Hoc Telecommunications Users Committee ("Ad Hoc") met with William Maher, Chief of the Wireline Competition Bureau, and members of his staff to discuss the above-referenced proceedings. Ad Hoc's representatives were Renny Hellickson, American Express Company, Dan Pyzik, FiServ, Inc., Donn Greiner, USAA, and the undersigned, counsel to Ad Hoc.

The substance of Ad Hoc's presentation is reflected in the attachments hereto.

Pursuant to Section 1.1206(b)(1) of the Commission's rules, 47 C.F.R. § 1.1206(b)(1), an original and one copy of this letter are being provided to you for inclusion in the public record of the above-referenced proceeding.

Sincerely,



James S. Blaszak
Counsel, Ad Hoc Telecommunications Users
Committee

Cc: William Maher

Attachments

Ad Hoc Telecommunications Users Committee (CC Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, and NSD File No. L-00-72)

USF Assessments On Single Lines Should Not Be Frozen.

- Ad Hoc's support for the COSUS proposal represents a compromise that favors residential and single line business users.
 - There is *no* evidence that imposing the same connection charge on multi-line subscribers, on the one hand, and residential users, on the other hand, would reduce residential telephone subscribership.
 - Nevertheless, Ad Hoc members have agreed to pay connection charges that are about four times higher than residential charges, i.e., \$3.89 v. \$1.00. This costs the average Ad Hoc member about \$3M per year.
 - At least for accountability reasons, all connection charges should rise or fall by the same percentage after the transition period.
- Proposals to cap the assessments applicable to residential, single line business and wireless connections would advance no legitimate public policy goal; are not justified on grounds of affordability or predictability and would unlawfully discriminate against multi-line business customers.
 - An "average" residential subscriber would pay less in USF fees than under currently effective rules.
 - Multi-line subscribers could, under reasonable assumptions regarding rates of growth for lines and the USF, face USF payment increases of between 63 to 80 percent. The average Ad Hoc member could pay between \$2.5M and \$3.4M more per year.
 - Ad Hoc members often cannot increase their prices to account for higher USF payments.
 - Freezing USF assessments on residential lines, would result in about 25% of the connections supporting 100% of USF growth, growth that could be much higher than that implicit in the estimates shown above.
 - Predictability is important to multi-line subscribers, as well as to residential subscribers.

Carrier Mark-Ups Violate Truth-In-Billing Policies And Rules

- There is no public data that justifies historic mark-ups of the Commission's USF factor.
- The Commission has charged carriers to convey information that, "accurately describes the nature of the [USF] charge."
- Rules require that carriers describe charges in "brief, clear, non-misleading, plain language."
 - Only AT&T, even suggests a mark-up
 - Mark-ups should not be buried in the USF charges.
 - Inflated USF charges portray the USF program as more lavish than it is in fact.



September 18, 2002

TELECOMMUNICATIONS

New Taxes, Fees Hit Phone Bills: How to Decipher Your Statement

By YOCHI J. DREAZEN
Staff Reporter of THE WALL STREET JOURNAL

People opening their wireless and long-distance phone bills may be in for some sticker shock.

Revenue-hungry city, state and local governments have been imposing a jumble of new taxes, fees and surcharges. Meanwhile, federal regulations let long-distance carriers add virtually any charges they want to a customer's bill. The result is bills packed with numerous charges that are baffling to customers and prompting complaints to regulators.

DECODING THE PHONE BILL

• *See* a chart⁰ detailing how extra charges added 23% to a New York cellphone user's bill

In one of the boldest such moves, Prince George's County, Md., began levying a new 8% charge on all wireless and residential phone bills in

July. The state of New York recently allowed county governments to add a new local wireless surcharge on customers. So far, about one-third of the state's counties have imposed it.

Other states are increasing existing taxes: In June, for example, Rhode Island more than doubled its so-called E-911 tax, which is intended to pay for equipment that tracks emergency calls from cellphones, to \$1 from 47 cents.

The net effect is that taxes now represent a big chunk of people's phone bills. In California, it is 19.6% of the average monthly bill, the highest percentage in the nation, according to the Cellular Telecommunications & Internet Association, a Washington trade group. Other high-taxing states include Florida, at 17.8% of the average monthly bill, and Virginia, at 17.1%.

Naomi Schaefer uses her cellphone constantly, so she was ready for her bills to be higher than the \$49.99 plan she had chosen. But she was surprised by the range of taxes with cryptic names like the "NY city utility gross receipts surcharge." All told, the charges add more than \$12 to her usual bill. "I just wasn't prepared for how high they'd be," says the New York City freelance writer.

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COMPANIES

| | Dow Jones | Reuters |
|-----------------------------------|-----------|---------|
| AT&T Wireless Services Inc. (AWE) | | |
| PRICE | 4.80 | |
| CHANGE | -0.15 | |
| U.S. dollars | 9:42 a.m. | |
| Sprint Corp. (FON Group) (FON) | | |
| PRICE | 9.52 | |
| CHANGE | -0.25 | |
| U.S. dollars | 9:41 a.m. | |
| AT&T Corp. (T) | | |
| PRICE | 12.55 | |
| CHANGE | -0.09 | |
| U.S. dollars | 9:42 a.m. | |

* At Market Close

Carriers, of course, have been aggressively touting their low per-minute and per-month charges. But in some cases, mounting taxes are wiping out those savings. Wireless calling rates have fallen 8% a year over the past four years, according to the CTIA, but wireless taxes add 12% to the average bill.

The companies defend the bills, insisting they are simply vehicles for new government levies. "We don't impose these taxes -- we just pass them along," says Rochelle Cohen, a spokeswoman for AT&T Wireless.

TAX BURDEN

The five states where consumers pay the most taxes on their wireless bills, as a percentage of the total bill.

Califomb



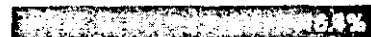
Florida



Virginia



New York



Nebraska



Source: Cellular Telecom. Industry Assoc.

The fact that consumer telecom bills are almost entirely free of government regulation only exacerbates the problem. The Federal Communications Commission requires companies to offer customers a toll-free number to call if they're confused over their bills, but otherwise, the agency has no control over what charges appear on a bill. Consumers who don't get a satisfactory explanation can file a complaint with the FCC, but the process is cumbersome and few customers take advantage of the option.

Many of the complaints received by regulators involve charges on long-distance bills. One target: the rising fees carriers charge to cover their contributions to the federally mandated Universal Service Fund, which helps compensate phone companies for providing affordable service to rural and low-income customers. The FCC currently requires companies to contribute 7.3% of a

customer's monthly bill to the fund, but many companies charge far more.

Used for Unrelated Purposes

MCI and **Sprint** currently hit customers with a USF of more than 9%, while AT&T has pushed the charge as high as 11.5%. Sprint says it needs to charge the higher amount because its payments to the FCC are based on what the company's revenue was six months earlier. "It's not like we're keeping this money," says Sprint spokeswoman Angie Makkyla.

Sprint also sparked consumer ire last year when it began levying a Carrier Property Tax of 1.08% of all interstate and international calls. The company said the fees allow the company to recover a portion of its property taxes, but many consumers wondered why such a basic cost of doing business wasn't included in the price the company was already charging. Sprint says it has simply chosen to break out all of the fees and taxes for clarity purposes.

Some surcharges go to uses unrelated to their original purpose. Dozens of states, for example, have for years levied the 911 surcharge, which is supposed to pay for upgraded call centers capable of tracking the location of wireless customers who place emergency calls. The effort has been driven in part by horror stories of people who called for help on their wireless phones, only to die before rescue workers could find them.

MAKING SENSE OF YOUR PHONE BILL

Below, the taxes on the August bill of an AT&T Wireless customer in New York with a \$39.99 calling plan. The extra charges added \$9.30, or 23%, to the total bill, which was \$49.29.

| Taxes, Surcharges & Regulatory Fees | | |
|-------------------------------------|--------|---|
| Federal Tax | \$1.32 | A "temporary" luxury tax first levied in 1898 that is now a |

But many states use the money for other projects. In New **York**, for instance, a comptroller audit earlier this year found that none of the 20 different 911 call centers operated by the state police was capable of determining a wireless caller's location. One reason: The report found that the state police had used some of **the** money for dry cleaning, lawn mowing and travel expenses.

Spanish-American War Tax?

Even when described as temporary, many surcharges are virtually impossible to eliminate. Consider the **3%** federal excise tax that appears on all local, long-distance and wireless telephone bills. It was first imposed in 1898 as a temporary tax on telephones, which were then considered a **luxury** item. The money it raised was used to fund the Spanish-American war.

| | | |
|--------------------------------------|--------|---|
| | | mainstay of all telecom bills. |
| State Tax | \$1.72 | State-imposed sales tax. |
| Local Tax | \$1.82 | County or borough sales tax. |
| 911 Surcharge | \$1.20 | State tax used to fund purchase of equipment capable of tracking the location of wireless users who dial 911. |
| NY City Utility G.R. Sur | \$0.96 | City tax imposed on telecom providers. |
| Local Wireless Surcharge | \$0.30 | A tax NY counties were recently given permission to levy. |
| Universal Connectivity Charge | \$0.42 | Federal tax used to subsidize phone service to poor and rural areas. |
| Gross Receipts Surcharge | \$1.56 | State tax on telecom providers that most carriers pass on to their customers. |

Numerous lawmakers have tried to eliminate the tax over the years, but the efforts have run aground. Today, more than a century after the war ended, the tax is still being dutifully levied on tens of millions of customers.

-- *Jesse Drucker and Jane Spencer contributed to this article.*

Write to Yochi J. Dreazen at yochi.dreazen@wsj.com¹

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